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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch ***

**RESOLUTION T-17043
July 20, 2006**

R E S O L U T I O N

Resolution T-17043. Approval of Fiscal Year 2007-08 California High Cost Fund-A (CHCF-A) Administrative Committee (AC) Fund Expense Budget to Comply with the Requirements of Public Utilities Code Section 270 (A).

Summary

This resolution adopts a California High Cost Fund-A (CHCF-A) expense budget of \$66.662 million for Fiscal Year (FY) 2007-08.

Background

The California High Cost Fund (HCF) was implemented by D.88-07-022 as modified by D.91-05-016 and D.91-09-042 to provide a source of supplemental revenues to three mid-size and seventeen small Local Exchange Companies (LECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.

D.96-10-066 changed the name of HCF to CHCF-A and created the California High Cost Fund-B (CHCF-B). This decision included the three mid-size LECs in the CHCF-B program for the purpose of determining universal service subsidy support and maintained the CHCF-A for the 17 small LECs.

CHCF-A is funded by a surcharge assessed on consumers' intrastate telecommunications services. Prior to October 2001, a tax-exempt trust was established for the receipts and disbursements of CHCF-A funds. In compliance with PU Code § 270 et seq., which were codified by the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677), the following events took place on October 1, 2001:

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- the State Treasury created a CHCF-A AC Fund for the receipts and disbursements of CHCF-A funds; and
- the Commission created CHCF-A AC to advise the Commission regarding the development, implementation, and administration of the CHCF-A program.

§ 270(b) requires that the monies in the CHCF-A and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act. Since FY 2001-02, the CHCF-A Fund expenditures have been authorized in the State's Annual Budget Act.

On May 25, 2006, the CHCF-A AC held a public meeting to discuss the proposed FY 2007-08 budget. However, the AC was unable to approve this item due to lack of a majority vote.¹ On May 26, 2006, in compliance with Paragraph 4.a.1 of the CHCF-A AC Charter, the Alternate Vice Chairperson of the AC submitted the proposed FY 2007-08 CHCF-A AC budget to the Director of the Telecommunications Division (TD).

Notice/Protests

Notice of the CHCF-A AC Alternate Vice Chairperson's letter request was published in the Commission Daily Calendar of June 5, 2006.

As of the date of mailing of this draft resolution for comments, the Commission has not received any protests or comments on this matter.

Discussion

In this Resolution, the Commission adopts a proposed CHCF-A expense budget of \$66.662 million for FY 2007-08 as proposed by the Telecommunications Division.²

As the proposed FY 2007-08 budget submitted by the CHCF-A AC Alternate Vice-Chairperson has not been adopted by the AC, the CHCF-A AC proposed budget as submitted by the AC will not be discussed in this resolution.

¹ The Commission's Legal Division has advised Committee members that represent telecommunications carriers to recuse themselves from discussing and voting on the budget due to conflict of interest issues.

² This budget is based on the current program structure being applicable in FY 2007-08.

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Appendix A shows a comparison of the adopted FY 2006-07 expense budget as adopted in Resolution T-16956, and TD's proposed FY 2007-08 expense budget.

The breakdown of the FY 2007-08 expense budget is shown below:

Carrier Payments	\$55,712,944
Other Program Services	\$0
Other Legislative Mandated Programs	\$10,000,000
Administrative Committee-Per Diem	\$1,200
Administrative Committee-Travel and Others	\$2,400
Administrative Committee-Special Needs Accommodation	\$0
Financial Audit	\$0
Compliance Audit	\$0
Surcharge Remittance Audit	\$150,000
Claim Audit	\$0
Banking Fees	\$30,000
Interagency Costs	\$282,000
CPUC Staff Costs	\$433,000
Other Operating Expenses	\$50,000
 Total Program Expenses	 \$66,661,544.00

FY 2007-08 Budget Changes

The FY 2007-08 expense budget of \$66.662 million reflects an increase of \$7.848 million from the FY 2006-07 budget of \$58.814 million. Increased expenditures are projected for carrier payments and banking fees while decreases are projected for audit fees, interagency costs, and CPUC staff costs. Expenses for Legislative Mandated Programs, Administrative Committee, and other operating expenses are expected to remain at the FY 2006-07 level.

Carrier Payments

Carrier payments for 2007-08 are estimated at \$55.713 million, an increase of \$7.993 million from the \$47.720 million for FY 2006-07. Under existing implementation guidelines for CHCF-A support, carriers are entitled to recover revenue losses due to federal and state regulatory changes. For FY 2007-08, the carriers are requesting for CHCF-A support for changes in their federal Universal Service Fund (USF) funding, recovery of revenue losses associated with Wireless Intercarrier Compensation (FCC Declaratory Ruling and Report and Order in its Intercarrier Compensation Docket (CC Docket No. 01-92) (the T-Mobile Decision) and a possible reduction in intercarrier compensation as a possible outcome of FCC's Further Notice of Proposed Rulemaking

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(CC Docket N0. 01-92) in the matter of developing Unified Intercarrier Compensation Rules.

Legislative Mandated Programs

Under section 276.5 of the Public Utilities Code, an amount not to exceed \$10 million is provided yearly for a grant program to aid in the establishment of telecommunications service in areas not currently served by existing local exchange carriers.

Administrative Committee Expenses

The CHCF-A Charter requires the AC to meet at least quarterly and prescribes the per diem and reimbursement to members of the CHCFA-AC who are not employees of utilities, the Commission, or other governmental agencies of the State of California of reasonable expenses and/or per diem incurred in connection with their service on the Committee. Since only one of the three members of the Committee is eligible to receive compensation, the relatively small amount of \$3,600 (\$1,200 for per diem at \$300 per meeting) and \$2,400 for travel and other expenses) is allocated for AC expenses.

Audit Fees

Section 274 of the Public Utilities Code requires that financial and compliance audits of program-related costs and activities be conducted at least once every three years. For FY 2007-08, \$150,000 is allocated for audit fees, down from \$185,000 for FY 2006-07, since the number of audits to be conducted is expected to decrease.

Banking Fees

CPUC has contracted with a financial institution to maintain separate accounts and lockboxes for the five public program funds. CHCF-A's estimated share in banking fees for FY 2007-08 is expected to increase to \$30,000 due to the possible engagement of a new vendor to handle the public programs funds.

Interagency Costs

These costs represent the CHCF-A's contribution to the statewide administrative cost of central service agencies such as Department of Finance, Office of the State Controller, State Personnel Board, and Legislature. The FY 07-08 estimate of interagency costs at \$282,000 is based on the program's contribution as proposed in the Governor's budget for FY 2006-07.

CPUC Staff Costs

The amount of \$433,000 represents the estimated CPUC staff costs associated with the administration of the CHCF-A program. Several divisions within CPUC are responsible for different aspects of the program. While the Telecommunications Division is

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primarily responsible for the program, the Information and Management Services Division, and the Legal Division all provide staff resources to the program. The amount budgeted for this item is based on projected personnel allocation and program priorities.

Other Operating Expenses

The CPUC has established electronic filing system for surcharge remittances. The amount of \$50,000 is allocated for SQL programming and maintenance of this electronic filing and monitoring system.

Comments

In compliance with PU Code § 311 (g), notice letters were e-mailed on June 20, 2006 to the 17 small LECs, the CHCF-A AC, and the parties of record in R.01-08-002 and A.99-09-044, informing these parties that this draft resolution is available at the Commission's website <http://www.cpuc.ca.gov/> and is available for public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

TD did not receive any comments on this resolution.

Findings

1. In October 1999, Public Utilities Code (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-A (CHCF-A) Administrative Committee (AC) Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. On May 26, 2006, in compliance with Paragraph 4.a.1 of the CHCF-A AC Charter, the Alternate Vice Chairperson of the AC submitted a letter request to the Director of the Telecommunications Division endorsing the CHCF-A AC budget. The Alternate Vice Chairperson submitted the proposed CHCF-A AC budget in his personal capacity as the AC was unable to approve this item due to lack of a majority vote.
4. Notice of the CHCF-A AC Alternate Vice Chairperson's letter request was published in the Commission Daily Calendar of June 5, 2006. As of the date of

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mailing of this draft resolution for comments, the Commission has not received any protests or comments on this matter.

5. As the proposed FY 2007-08 budget submitted by the CHCF-A AC Alternate Vice-Chairperson has not been adopted by the CHCF-A AC, the CHCF-A AC budget as submitted by the AC will not be discussed in this resolution.
6. The Telecommunications Division (TD) proposes a FY 2007-08 expense budget of \$66.662 million. Increased expenditures are projected for carrier payments and banking fees while decreases are projected for audit fees, interagency costs, and CPUC staff costs. Expenses for Legislative Mandated Programs, Administrative Committee, and other operating expenses are expected to remain at the FY 2006-07 level.
7. TD's proposed FY 2007-08 expense budget of \$66.662 million, as set forth in Appendix A of this resolution, should be adopted.
8. Notice letters advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site were e-mailed to the 17 small LECs, the CHCF-A AC, and the parties of record in R.01-08-002 and A.99-09-044, on June 20, 2006.
9. TD did not receive any comments on this resolution.

THEREFORE, IT IS ORDERED that:

1. The FY 2007-08 CHCF-A expense budget of \$66.662 million, as set forth in Appendix A of this resolution, is adopted.

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This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 20, 2006. The following Commissioners approved it:

STEVE LARSON
Executive Director

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APPENDIX A
CALIFORNIA HIGH COST FUND A ADMINISTRATIVE COMMITTEE FUND
EXPENSE BUDGET FOR FY 2007-08

	FY 2006-07 <u>Resolution T-16956</u>	FY 2007-08 <u>TD Proposed</u>	FY 2007-08 <u>Adopted</u>
Carrier Payments ¹	\$47,720,231	\$55,712,944	\$55,712,944
Other Program Services	\$0	\$0	\$0
Other Legislative Mandated Programs ²	\$10,000,000	\$10,000,000	\$10,000,000
Administrative Committee-Per Diem ³	\$1,200	\$1,200	\$1,200
Administrative Committee-Travel and Others ⁴	\$2,400	\$2,400	\$2,400
Administrative Committee-Special Needs Accomodation	\$0	\$0	\$0
Financial Audit	\$0	\$0	\$0
Compliance Audit	\$0	\$0	\$0
Surcharge Remittance Audit	\$185,000	\$150,000	\$150,000
Claim Audit	\$0	\$0	\$0
Banking Fees ⁵	\$20,000	\$30,000	\$30,000
Interagency Costs ⁶	\$305,000	\$282,000	\$282,000
CPUC Staff Costs ⁷	\$530,000	\$433,000	\$433,000
Other Operating Expenses ⁸	\$50,000	\$50,000	\$50,000
Total Program Expenses	\$58,813,831	\$66,661,544	\$66,661,544

1 Claim payments are based on projections submitted by the LECs in May 2006.

2 Under section 276.5 of the Public Utilities Code, an amount not to exceed \$10 million is provided yearly for a grant program to aid in the establishment of telecommunications service in areas not currently served by existing local exchange carriers.

3 & 4 Pursuant to D.02-04-059, per diem and other costs are authorized for committee members attendance in the CHCF-A Administrative Committee meeting.
It is assumed that there will be 4 meetings a year.

5 Estimated lockbox and access fees.

6 Refers to pro-rata costs allocated to state service agencies, e.g. DGS, State Personnel Board

7 Refers to CPUC CHCF-A and staff costs.

8 Estimated costs for SQL programming and maintaining the electronic filing and monitoring system.